

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BFN2244 – FINANCIAL STATEMENT ANALYSIS
(All Sections / Groups)

23 October 2018
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 7 pages with **FOUR (4)** Questions only. (Including Front Page and Consolidated Financial Statements)
2. Answer **ALL** questions.
3. Write your answers in the Answer Booklet provided.

QUESTION 1 & 2

Hartalega Holding Berhad started as a single-line operation back in 1988, and now have evolved to a company that has singlehandedly revolutionised glove-making. In fact, Hartalega was the inventor of the world's first lightweight Nitrile glove in 2005, which caused a demand shift from latex to nitrile gloves all over the globe. In addition, Hartalega's continued technological innovations help ensure our gloves are manufactured with equal emphasis on efficiency and quality; a key reason why we are trusted as the OEM manufacturer for some of the world's biggest brands.

CHAIRMAN'S REVIEW AND MANAGEMENT DISCUSSION & ANALYSIS

The past year, especially the first half, was a challenging one for the manufacturing sector, specifically the glove manufacturing sector. However, Hartalega prevailed and even exceeded expectations, the proof of which is in the excellent results recorded in the financial year under review. Key to our growth was not only our continued commitment to product and quality improvement, Human Capital Development and R&D, but also our foresight investment in our Next Generation Integrated Glove Manufacturing Complex (NGC). This facility builds on our already solid foundation and exemplifies our determination to maintain our leadership in this industry through innovation, productivity and continuous enhancements in our manufacturing processes.

Revenue growth in the sector was muted in the first half of 2016. However, the market subsequently picked up in the second half of the year as raw material prices stabilized and the US Dollar strengthened. On the global front, 2016 saw the glove industry registering healthy demand, growing in the region of 6% to 8% year on-year. Malaysia remained the market leader, commanding over 63% of total global market share. Malaysia's exports of rubber gloves increased by 7% during the year to 62.5 billion pairs. This was once again led by synthetic rubber gloves, which surpassed natural rubber gloves, with a demand ratio of 57% to 43%.

Exports of synthetic rubber gloves increased by 5.7% to 35.7 billion pairs, equivalent to a rise of 12.9% in value terms to RM7.2 billion. Nitrile gloves, which comprised 99.5% of total synthetic glove exports, rose by 5.7% in quantity terms and 11.3% in value terms. Developed markets such as the US and the European Union recorded an increase in value terms in imports of synthetic rubber gloves in 2016.

The US remained the key importer with a 49.1% share of the total export value in 2016, followed by the EU with 27.5%. ASEAN recorded the highest increase in imports of Malaysian synthetic rubber gloves in 2016, expanding by 24.3% in value and 35.1% in quantity. Overall, Malaysia's exports of synthetic rubber gloves to most key regions saw double-digit growth.

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We can expect this positive trend to be sustained as the global healthcare market continues to grow and healthcare awareness increases in emerging markets. Hartalega is well-positioned to take advantage of these prospects as we maintain our momentum, driven by the NGC.

Our improved performance was driven by our NGC, which enabled the Group to increase production capacity via additional high capacity production lines, as well as enhanced operating efficiencies. Robust demand for nitrile gloves and higher sales volume coupled with the stronger US Dollar also contributed to our higher revenue.

Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position are attached on the pages 6 and 7.

QUESTION 1

- a) Based on the attached **Group Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position**, compute and briefly evaluate the changes in revenue, gross profit, profit, total comprehensive income and basic earnings per ordinary share for the financial period 2016 and 2017.

(13 marks)

- b) Based on the attached **Group Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position**, calculate the return on equity and its component ratios (Net profit margin, total asset turnover and financial leverage) for the financial periods 2016 and 2017.

(12 marks)

(Total: 25 marks)

QUESTION 2

- a) Based on the attached **Group Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position**, calculate the conversion periods (account inventory periods and account receivable periods) for the financial periods 2016-2017.

(12 marks)

- b) Based on **Chairman's Review and Management discussion & analysis**, you are required to support your answer in question 1(a), 1(b) and 2(a) to determine its significance to stock valuation.

(13 marks)

(Total: 25 marks)

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QUESTION 3

You are given the following information for WCT Company. As of year 1, the company's book value is RM80,000 and its cost of capital is 15%.

	Year 1	Year 2	Year 3	Year 4	Year 5
	RM	RM	RM	RM	RM
Sales	135,000	130,000	130,000	120,000	160,329
Operating Expenses	100,000	90,000	85,000	70,000	119,900
Depreciation	10,000	11,300	12,770	14,430	14,430
Net income	25,000	28,700	32,230	35,570	25,999
Dividends	8,000	4,355	3,120	12,700	10,820
Expected book value/equity	80,000	97,000	121,345	150,455	173,325
ROCE	0.313	0.296	0.266	0.236	0.150

Dividends for year 6 and beyond are expected to remain at year 5 level.

- Compute WCT Company's abnormal earnings for year 1 to year 5. **(7.5 marks)**
 - Use an accounting based valuation model to estimate the value of WCT Company's equity on January 1st of year 1, year 2, year 3, year 4 and year 5. **(7.5 marks)**
 - Use the Price-to-Earnings (PE) ratio formula to determine the Price-to-Earnings (PE) ratio for WCT Company on January 1st of year 2, year 3, year 4 and year 5. **(10 marks)**
- (Total: 25 marks)**

QUESTION 4

- Define each components of cash flow statement and explain the usefulness of cash flow statement. **(13 marks)**
- Discuss the date and the amount of revenue/sale should be recognized in the following independent circumstances with financial year end 31st December.
 - Goods at selling price of RM50,000 were sent out on 14-day 'sale or return basis' on 20 December 2017 which were not returned by financial year end 31st December. **(3 marks)**
 - On 1 Dec 2017, the company received RM800 cash from the sale of a television set whereby the customer had agreed to pay 40% down payment. The balance RM 1,200 will be paid in 6 monthly installments beginning on 1 January 2018 when television set delivered to the customer. **(3 marks)**

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- (iii) On 1 November 2017, Fragrance Wonder entered into a contract to deliver 100,000 sachets of perfume to Pleasure Hotel. The hotel paid RM40,000 on signing the contract and the balance of RM60,000 to be paid on delivery. However Fragrance wonder would only be able to deliver the perfume in February 2018. (3 marks)
- (iv) Fragrance Zonder had delivered 50,000 sachets of perfume in May 2017. The sales value was RM60,000 but Ruby Hotel had paid only RM25,000 and promised to pay the balance in April 2018. (3 marks)

(Total: 25 marks)

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STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

	Note	Group		Company	
		2017 RM	2016 RM	2017 RM	2016 RM
Revenue	4	1,821,873,353	1,498,336,638	130,160,575	210,609,220
Cost of sales		(1,331,301,353)	(1,096,644,577)	-	-
Gross profit		490,572,000	401,692,061	130,160,575	210,609,220
Other income		13,848,838	32,917,664	8,251,922	8,035,854
Distribution expenses		(21,152,967)	(18,228,218)	-	-
Administrative expenses		(82,784,751)	(67,534,851)	(1,408,858)	(1,714,013)
Other operating expenses		(50,487,096)	(31,592,091)	-	-
		(154,424,814)	(117,355,160)	(1,408,858)	(1,714,013)
Profit from operations		349,996,024	317,254,565	137,003,639	216,931,061
Finance costs		(1,018,219)	(376,585)	-	-
Profit before tax	5	348,977,805	316,877,980	137,003,639	216,931,061
Tax expense	6	(65,660,394)	(59,117,989)	(1,904,104)	(1,749,901)
Profit for the financial year		283,317,411	257,759,991	135,099,535	215,181,160
Other comprehensive income Items that may be reclassified subsequently to profit or loss Foreign currency translation, representing other comprehensive gain for the financial year, net of tax		1,245,964	499,402	-	-
Total comprehensive income for the financial year		284,563,375	258,259,393	135,099,535	215,181,160
Profit attributable to:					
Owners of the Company		283,001,350	257,427,543	135,099,535	215,181,160
Non-controlling interests		316,061	332,448	-	-
		283,317,411	257,759,991	135,099,535	215,181,160
Total comprehensive income attributable to:					
Owners of the Company		284,021,301	257,837,883	135,099,535	215,181,160
Non-controlling interests		542,074	421,510	-	-
		284,563,375	258,259,393	135,099,535	215,181,160
Earnings per ordinary share attributable to owners of the Company:					
Basic earnings per ordinary share (sen)	7	17.24	15.70		
Diluted earnings per ordinary share (sen)	7	17.14	15.58		

STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2017

		Group		Company	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	8	1,393,169,746	1,133,687,859	-	-
Capital work-in-progress	9	177,216,079	267,852,294	-	-
Intangible assets	10	19,798,640	19,483,421	-	-
Investments in subsidiaries	11	-	-	601,632,827	581,615,604
Deferred tax assets	12	4,875,999	1,015,703	-	-
Amount owing by subsidiary	22	-	-	298,609,505	297,935,711
Total Non-Current Assets		1,595,060,464	1,422,039,277	900,242,332	879,551,315
Current Assets					
Inventories	13	270,434,418	201,536,795	-	-
Trade and other receivables	14	300,115,771	239,044,258	77,044	32,476
Tax assets	15	154,536	99,890	-	-
Amount owing by subsidiary	22	-	-	6,290	673,793
Derivative financial assets	16	-	13,998,000	-	-
Cash, bank balances and short-term investments	17	121,008,566	84,381,327	17,308,362	6,223,708
Total Current Assets		691,713,291	539,060,270	17,391,696	6,929,977
TOTAL ASSETS		2,286,773,755	1,961,099,547	917,634,028	886,481,292
EQUITY AND LIABILITIES					
Equity Attributable to Owners of the Company					
Share capital	18	830,315,586	820,514,607	830,315,586	820,514,607
Reserves	19	851,845,366	681,427,666	87,050,633	65,554,699
		1,682,160,952	1,501,942,273	917,366,219	886,069,306
Non-controlling interests		2,625,133	2,083,059	-	-
Total Equity		1,684,786,085	1,504,025,332	917,366,219	886,069,306
Non-Current Liabilities					
Loans and borrowings	20	162,549,914	205,609,301	-	-
Deferred tax liabilities	12	76,421,486	60,810,812	-	-
Total Non-Current Liabilities		238,971,400	266,420,113	-	-
Current Liabilities					
Trade and other payables	21	206,971,407	147,387,988	48,677	80,216
Loans and borrowings	20	147,492,056	42,441,387	-	-
Derivatives financial liabilities	16	1,728,000	-	-	-
Tax liabilities	15	6,824,807	824,727	219,132	331,770
Total Current Liabilities		363,016,270	190,654,102	267,809	411,986
Total Liabilities		601,987,670	457,074,215	267,809	411,986
TOTAL EQUITY AND LIABILITIES		2,286,773,755	1,961,099,547	917,634,028	886,481,292